

**NORTHERN TAR,
CHEMICAL AND WOOD
LIMITED**



NORTAR



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DIRECTORS

J. S. GAIRDNER J. H. GAIRDNER J. H. HAWKE
F. HEDLEY C. W. LEONARDI, C.A. S. F. MACK R. J. PRETTIE

OFFICERS

J. S. GAIRDNER — *Chairman of the Board*
R. J. PRETTIE — *President* S. F. MACK — *Vice President*
F. HEDLEY — *Vice President* R. J. HARTVIKSEN — *Secretary and Treasurer*
D. B. CARON, C.A. — C. H. HOLLINGSHEAD —
Assistant Treasurer and Comptroller *Assistant Secretary*
R. E. JOHNSON —
Assistant Secretary

TRANSFER AGENT AND REGISTRAR

THE ROYAL TRUST COMPANY — Toronto, Montreal, Winnipeg and Vancouver

AUDITORS

CLARKSON, GORDON & Co., (*Chartered Accountants*) Port Arthur, Ontario

NORTHERN TAR, CHEMICAL AND WOOD LIMITED
NORTHERN WOOD PRESERVERS, LIMITED
NORTHERN FOREST PRODUCTS LTD.
NORTHERN WOOD PRESERVERS (SASKATCHEWAN) LIMITED

HEAD OFFICE: Port Arthur, Ontario

PLANTS: Port Arthur, Prince Albert

SALES OFFICES: Calgary, Port Arthur, Prince Albert, Toronto

NORTHERN TAR, CHEMICAL AND WOOD LIMITED

HIGHLIGHTS

	<u>1968</u>	<u>1967</u>
Sales - - - - -	\$8,963,711	\$8,112,112
Earnings before taxes and non-recurring income - - - -	793,852	542,874
Provision for income taxes - - - - -	353,913	232,814
Net earnings - - - - -	366,641	297,251
Net earnings per share after payment of preferred dividends	74¢	57¢
Preferred dividends paid - - - - -	57,190	58,628
Common dividends paid - - - - -	167,460	164,300
Retained earnings - - - - -	867,455	695,677

REPORT OF THE PRESIDENT

Strong demand for lumber throughout the year, together with improved plant facilities and a buoyant economy, led to a 23 per cent increase in net earnings after taxes for your company. Net earnings were \$366,641, compared with \$297,251 in 1967, and sales increased to \$8,963,711 from \$8,112,112.

After provision for current and deferred taxes, and after payment of preferred dividends, earnings per common share amounted to 74 cents compared with 57 cents per common share for the previous year.

Dividends in the amount of \$167,460 (equivalent to 40 cents per share) were paid to holders of common shares. Dividend payments on the Company's \$1.70 preferred share, series "A" totalled \$57,190.

One of the major factors responsible for the company's increased profit was the greater efficiency and reduced operating costs brought about by mechanization of woods operations and up-grading of equipment. New equipment at Port Arthur during the year included a modern and highly efficient timber slasher. Due to a fire, the main sawmill was destroyed and will be replaced by a modern sawmill, utilizing the most up-to-date and sophisticated equipment. It is expected to be in operation about July 1st. The last of the Company's older treating retorts will also be replaced.

A capital program in excess of \$1 million was begun in 1968, the funds coming from a combination of a forgivable loan from the Ontario Development Corporation and an additional long-term capital loan from the Prudential Insurance Company, thus enabling the company to invest in capital projects without deteriorating current working capital.

Demand for poles was down during the year, largely as a result of the completion of many rural electrification programs. The company is in the process of developing markets for alternative products. Demand for tar enamel and distillates showed some improvement.

With the continuing demand for timber products, both treated and untreated, together with our improved plant and equipment, the outlook for the next two years is most satisfactory.

Once again, it is my pleasure to acknowledge and thank the members of our staff for their performance and loyalty over the past year.

March 20, 1969

On behalf of the Board

ROBERT J. PRETTIE

President

NORTHERN TAR, CHEMICAL AND WOOD LIMITED and its subsidiary c

(incorporated under the Laws of the Province of Ontario)

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1968

(with comparative figures for 1967)

ASSETS

	1968	1967
CURRENT		
Cash - - - - -	\$ 56,156	\$ 56,806
Accounts receivable - - - - -	1,146,608	926,783
Unadjusted insurance claim (Note 1) - - - - -	83,829	0
Inventories at lower of cost and net realizable value - - - - -	1,633,918	1,621,558
Work in progress at lower of cost and net realizable value - - - - -	525,827	330,286
Area Development Incentives Act grant - - - - -	8,560	35,000
Special refundable tax - - - - -	10,977	0
Cash surrender value of life insurance - - - - -	69,694	64,988
Prepaid expenses - - - - -	19,665	31,773
	<u>3,555,234</u>	<u>3,067,194</u>
SPECIAL REFUNDABLE TAX - - - - -	1,056	19,268
INVESTMENTS AND DEPOSITS AT COST - - - - -	14,500	32,835
FIXED (Note 2)		
Land, buildings, road, machinery and equipment - - - - -	6,868,062	6,478,277
Less: Accumulated depreciation - - - - -	3,301,129	3,204,820
	<u>3,566,933</u>	<u>3,273,457</u>
DEFERRED CHARGES		
Organization and financing costs less amortization - - - - -	139,080	152,226
Goodwill and patent rights — at cost - - - - -	14,491	14,491
	<u>153,571</u>	<u>166,717</u>

Approved by the Board:

R. J. PRETTIE, *Director*

S. F. MACK, *Director*

\$7,291,294

\$6,559,471

AUDITORS' REPORT

To the Shareholders of
NORTHERN TAR, CHEMICAL AND WOOD LIMITED.

We have examined the consolidated balance sheet of Northern Tar, Chemical and Wood Limited and its subsidiaries as at December 31, 1968 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

(The notes appended hereto for

LIABILITIES

	1968	1967
CURRENT		
Bank advances (secured) - - - - -	\$ 686,272	\$ 919,521
Accounts payable and accrued liabilities - - - - -	794,349	650,721
Current instalment of long term debt - - - - -	110,000	70,000
Income taxes payable (Note 3) - - - - -	132,878	69,320
Dividends payable - - - - -	56,156	56,114
	<u>1,779,655</u>	<u>1,765,676</u>
LONG TERM DEBT (less current instalment) (Note 4)		
7.80% secured debenture due December 15, 1983 payable in annual instalments - - - - -	1,490,000	950,000
DEFERRED INCOME TAXES (Note 5) - - - - -	<u>59,963</u>	<u>37,147</u>

SHAREHOLDERS' EQUITY

SHARE CAPITAL

Authorized:

97,449 — preference shares with par value of \$25 each,
issuable in series (Note 7)

1,000,000 — common shares without par value

Issued and fully paid:

33,449 — \$1.70 cumulative, redeemable preference
shares, Series A (Note 7) - - - - -

419,400 — common shares (1,000 shares issued for cash
of \$2,500 in 1968; 12,000 shares issued for
cash of \$30,000 in 1967) - - - - -

	836,225	855,475
	856,500	854,000
	<u>1,692,725</u>	<u>1,709,475</u>
RETAINED EARNINGS - - - - -	<u>867,455</u>	<u>695,677</u>
EXCESS OF NET BOOK VALUE OF SUBSIDIARY COMPANIES OVER COST OF INVESTMENT THEREIN - -	<u>401,496</u>	<u>401,496</u>
EXCESS OF APPRAISED VALUE OF FIXED ASSETS OVER COST (Note 2) - - - - -	<u>1,000,000</u>	<u>1,000,000</u>
	<u>3,961,676</u>	<u>3,806,648</u>
	<u><u>\$7,291,294</u></u>	<u><u>\$6,559,471</u></u>

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1968 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, except for the change in accounting treatment of deferred income taxes referred to in Note 5, with which we concur.

Port Arthur, Ontario,
January 25, 1969.

CLARKSON, GORDON & Co.
Chartered Accountants.

CONSOLIDATED STATEMENT OF EARNINGS

for the year ended December 31, 1968

(with comparative figures for 1967)

	1968	1967
SALES - - - - -	<u>\$8,963,711</u>	<u>\$8,112,112</u>
COST OF SALES - - - - -	<u>7,233,990</u>	<u>6,663,154</u>
GROSS EARNINGS FROM OPERATIONS - - - - -	<u>1,729,721</u>	<u>1,448,958</u>
OPERATING EXPENSES		
Administrative and general - - - - -	444,649	438,124
Directors' and senior officers' remuneration and expenses - -	138,714	116,020
Depreciation - - - - -	229,029	209,576
	<u>812,392</u>	<u>763,720</u>
NET EARNINGS FROM OPERATIONS - - - - -	<u>917,329</u>	<u>685,238</u>
FINANCIAL EXPENSES		
Debentures — interest - - - - -	64,561	68,274
— amortization of financing costs - - - - -	5,534	3,835
Other interest and discounts - - - - -	91,089	116,474
	<u>161,184</u>	<u>188,583</u>
	756,145	496,655
OTHER INCOME - - - - -	37,707	46,219
NET EARNINGS BEFORE INCOME TAXES - - - - -	<u>793,852</u>	<u>542,874</u>
PROVISION FOR INCOME TAXES (Note 3)		
Income taxes payable - - - - -	353,913	232,814
Deferred income taxes payable (Note 5) - - - - -	59,963	37,147
	<u>413,876</u>	<u>269,961</u>
	379,976	272,913
NON-RECURRING INCOME (LOSS) - - - - -	(13,335)	24,338
NET EARNINGS FOR THE YEAR - - - - -	<u>\$ 366,641</u>	<u>\$ 297,251</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the year ended December 31, 1968

(with comparative figures for 1967)

	1968	1967
RETAINED EARNINGS, January 1 - - - - -	\$ 695,677	\$ 605,164
Reversal of restated 1967 deferred income tax provision (Note 5) - - - - -	37,147	0
RETAINED EARNINGS, January 1		
as previously reported - - - - -	732,824	605,164
Add: Net earnings for the year - - - - -	366,641	297,251
Discount on redemption of preference shares - - -	3,200	2,748
	<u>1,102,665</u>	<u>905,163</u>
Less: Dividends — common shares - - - - -	167,460	164,300
— preference shares - - - - -	57,190	58,629
Adjustments applicable to prior years - - - - -	10,560	(13,443)
	<u>235,210</u>	<u>209,486</u>
RETAINED EARNINGS, December 31 - - - - -	<u>\$ 867,455</u>	<u>\$ 695,677</u>

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

for the year ended December 31, 1968

(with comparative figures for 1967)

	1968	1967
SOURCE OF FUNDS		
Net earnings for the year - - - - -	\$ 366,641	\$ 297,251
Add: Charges deducted therefrom, not requiring an outlay of funds - - - - -		
Depreciation - - - - -	229,029	209,576
Deferred income taxes - - - - -	59,963	37,147
Amortization of financing expense - - - - -	5,534	3,835
Investments and deposits written off - - - - -	18,335	0
<i>Total funds from operations</i> - - - - -	679,502	547,809
Other		
Issue of common shares under option agreement - - -	2,500	30,000
Special refundable tax - - - - -	18,211	(6,375)
Forgivable loan — Ontario Development Corporation - -	89,583	0
Debenture issue - - - - -	650,000	0
	1,439,796	571,434
APPLICATION OF FUNDS		
Fixed assets purchased (net) - - - - -	612,087	240,346
Long term debt retirement - - - - -	110,000	70,000
Redemption of preference shares - - - - -	16,050	15,427
Dividends		
Common shares - - - - -	167,460	164,300
Preference shares - - - - -	57,190	58,628
Investment purchased - - - - -	0	2,000
Financing costs - - - - -	0	10,737
Adjustments applicable to prior years - - - - -	2,947	(13,443)
	965,734	547,995
INCREASE IN WORKING CAPITAL FOR YEAR - - -	474,062	23,439
Add: Working capital, January 1 - - - - -	1,301,517	1,278,079
WORKING CAPITAL, December 31 - - - - -	\$1,775,579	\$1,301,518

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

as at December 31, 1968

NOTE 1. *Unadjusted Insurance Claim*

In November 1968 a fire destroyed the main lumber sawmill of a subsidiary. The unadjusted insurance claim recorded in the accounts to December 31, 1968 consists of the following: —

Business interruption insurance - - - - -	\$23,788
Inventory of materials and supplies - - - - -	21,478
Temporary repairs, hook-ups, etc. - - - - -	38,563
	<u>\$83,829</u>

In addition to the foregoing a claim for an undetermined amount is being made for the replacement value of the fixed assets destroyed or damaged. The value of the fixed assets destroyed has not been removed from fixed asset account as it is expected that the insurance claim will exceed the book value. The company intends to rebuild and present plans provide for a new sawmill to cost approximately \$200,000 in excess of the estimated amount recoverable under the insurance claim.

NOTE 2. *Fixed Assets*

Fixed assets are valued as follows:

At cost:		Accumulated Depreciation
Land - - - - -	\$ 19,682	0
Buildings - - - - -	87,499	\$ 42,456
Roads - - - - -	57,562	30,958
Machinery and equipment - - - - -	1,684,203	1,059,047
	<u>1,848,946</u>	<u>1,132,461</u>

At a valuation approved by the Board of Directors of Northern Wood Preservers, Limited, being less than an appraised value as determined by General Appraisal Company Limited as at November 23, 1965 with subsequent additions at cost:

Buildings, machinery and equipment of Northern Wood Preservers, Limited - -	5,019,116	2,168,668
	<u>\$6,868,062</u>	<u>\$3,301,129</u>

In accordance with the established practise of the company, depreciation has been provided on the basis of amortizing the undepriciated cost at January 1, 1963 of the various assets with subsequent additions at cost over their estimated remaining useful lives as determined by the management.

NOTE 3. *Income Taxes*

In determining the estimated income tax liability for the years 1963 to 1966 inclusive, a subsidiary company deducted interest and financing charges on its secured debentures. The Department of National Revenue has issued re-assessments for these years under which \$180,098 has been disallowed. Negotiations are pending with the Department to have these re-assessments eliminated. If such negotiations are not succesful, the company intends to appeal against the re-assessments and in that event the additional tax payable, if any, will be a matter to be determined by the Courts.

No corresponding re-assessments have been issued by the Ontario Corporations Tax Branch.

Should the Company be unsuccessful, the combined federal and provincial taxes would aggregate \$93,651 excluding interest. Pending settlement, this liability is not included in the balance sheet.

NOTE 4. *Long Term Debt*

A wholly owned subsidiary has issued a 7.80% Secured Debenture dated December 23, 1968 in the aggregate principal amount of \$1,600,000 maturing December 15, 1983. This debenture replaces the previous indebtedness of \$950,000. \$110,000 is payable on December 15 in each of the years 1969 to 1978 inclusive and \$100,000 on December 15 in each of the years 1979 to 1983 inclusive.

NOTE 5. *Deferred Income Taxes*

In 1968 the company adopted the tax allocation basis of computing provisions for income taxes.

A. *Deferred Tax Credit — 1968*

The deferred tax credit of \$59,963 arises due to capital cost allowances to be claimed in excess of depreciation charges.

B. *Deferred Tax Credit — 1967*

The 1967 comparative figures have been restated by a provision of \$37,147 for deferred income taxes, which has not been recorded in the books.

C. *Cumulative Tax Deferments*

Unrecorded deferred income tax credits accumulating prior to the adoption of the income tax allocation basis of 1968 arising from capital cost allowances claimed in excess of depreciation recorded amounts to \$237,101.

NOTE 6. *Stock Options*

The company reserved 20,000 common shares for issue at \$2.50 per share upon the exercise of options granted to officers and employees of the company or its subsidiaries. Under the option agreement, 19,400 shares have been sold at December 31, 1968 and the balance of 600 shares are exercisable from time to time on or before March 31, 1969.

NOTE 7. *Purchase Fund for Redemption of Preference Shares*

On or before March 1 in each year commencing with the year 1966, the company must set aside a purchase fund of \$20,000 for the purchase of preference shares for cancellation, until the said amounts set aside and not used or applied equal \$80,000. Since March 1, 1966, 2,551 preference shares have been purchased for cancellation at an aggregate cost of \$55,943.

NOTE 8. *Commitments*

A subsidiary company has approved capital expenditure programs aggregating approximately \$775,000 including the rebuilding of the sawmill destroyed by fire. In this connection purchasing orders of \$390,000 have been issued.

NOTE 9. *Contingent Liability*

A subsidiary company has entered into a forgivable loan agreement with the Ontario Development Corporation dated April 25, 1968 amounting to \$89,583. Subject to the fulfilment of certain specified conditions, 10% of the loan is to be forgiven in each of the years 1969 to 1973 inclusive and the balance forgiven in 1974.



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NORTHERN TAR, CHEMICAL AND WOOD LIMITED